



COMMUNICATION OF PROGRESS 2010

SUSTAINABILITY REPORT

Message from the Managing Director

This report covers the period from July 2009 to June 2010.

Driven by a concern that climate change is a real global threat, in 2004 Sustainable Living Fabrics began charting a CSR Program for the next five years. The journey is not complete but the five years have passed. The achievements are significant and have set industry benchmarks that have driven significant environmental change. So much was achieved in those early years that it is increasingly difficult to continue to make significant inroads into our sustainability footprint but we strive to maintain our high standards and to improve where possible.

In 2008, the company committed to active participation in the Global Compact recognizing this as an effective pathway for global sustainability. In September 2009, I attended the UN Climate Change discussions in New York and in June 2010 participated in the Global Compact Leaders Summit in New York. As CEO of a small organization I was proud to be given the opportunity to have the voice of small business heard and to further promote the importance of the role of SMEs through an interview on Sky Business News, which can be seen [here](#).

I am proud of our achievements as an SME and of our success in making our voice heard and driving change in the company, the supply chain and the industry. I remain firmly of the view that the role of SMEs cannot be underestimated in driving real environmental change but it is not easy. Investment in sustainability comes off the bottom line and with no shareholder funds to draw from, out of the owners' own pockets. On average we continue to invest 1% of turnover annually in our sustainability program.

I recommend you to our website www.greenliving.com.au and encourage other SMEs to join us in supporting the Global Compact and introducing a proactive and effective CSR Program.

A handwritten signature in black ink, appearing to read 'Bill Jones', with a stylized, cursive script.

Bill Jones
CEO
Sustainable Living Fabrics Pty Ltd

Introduction

"Legitimate and transparent sustainability is the key to success" - Bill Jones, CEO Sustainable Living Fabrics

The ten principles of the UN Global Compact are an integral part of the CSR agenda for Sustainable Living Fabrics and are soundly embedded in corporate culture. The lynchpin is moral sustainability with transparent, credible and independent verification of credentials.

Sustainable Living Fabrics committed to the UN Global Compact in March 2008 when it produced its first Sustainability Report to GRI Guidelines. In April of that year it endorsed the CEO Water Mandate and the Caring for Climate platform. It has actively participated in these initiatives. The Directors attended the first meeting of signatories to Caring for Climate in Geneva in October 2008 and the CEO attended the UN Climate Change discussions in New York in late 2009 and in June 2010 participated in

the Global Compact Leaders Summit in New York.

This report provides quantifiable data and addresses the Company itself, its history, products, market and the corporate philosophies that guide its sustainability agenda, which in turn drives corporate decision-making.

Areas covered by the report are indicated in the Appendix. As the fabric supply chain has significant environmental impact, the report boundaries extend to the fabric supply chain but not to the supply chain for consumables.

The report is for the financial year ending 30 June 2010. The company is committed to reporting at least every two years. It chose not to seek external assurance for its report but independent environmental auditors have externally audited its environmental credentials.

Company Overview

"Climate change is a challenge that cannot be ignored"

– Bill Jones, CEO Sustainable Living Fabrics

Sustainable Living Fabrics' corporate strategy is driven by a proactive sustainability agenda that is more than just an environmental agenda.

It is about social responsibility and it is legitimate, transparent and credible, embracing independently audited and certified environmental credentials as key criteria for true sustainability.

The Board of Directors implemented the sustainability agenda in response to climate change considerations.

The KISS (Keep it Simple Sustainably) Program is designed to take the company's CSR initiative beyond the company into employees' homes and the community.

The Company



Sustainable Living Fabrics is an Australian commission manufacturer and wholesaler of upholstery fabrics supplying the local and overseas commercial interiors markets for over 45 years. The Company is privately owned and proprietary limited. Its Head Office and warehouse are in Oakleigh Victoria with branches in Sydney, Brisbane and Perth. No

offices or the warehouse impact on natural habitats.

As a commission manufacturer, the company controls the product supply chain from raw materials through to finished product enabling it to choose where its processing is done. It is a complex global manufacturing supply chain covering Australia, New Zealand, Germany, Italy, China, Thailand and Indonesia and involves key suppliers doing the right thing in an industry with a heavy environmental footprint.

Stakeholders are the shareholders, employees, suppliers and customers without whom its business model could not be implemented and with whom regular contact is maintained.

Environmental Excellence

Sustainable Living Fabrics' environmental position is unique amongst Australian companies.

Sustainable Living Fabrics' Green Living Collection of over 400 fabrics is exclusively environmental fabrics from ethical eco wool, eco polyester and ethical eco wool blends. The products are designed as upholstery for commercial interiors. Every product sold is independently certified environmentally preferable and/or carbon neutral.

The corporate strategy to achieve a simple guarantee of environmental excellence has driven comprehensive, quantifiable CSR change in the Company and has been a catalyst for change in the industry and the wider community.

Wider Recognition

Sustainable Living Fabrics has received wider recognition of its achievements.

In 2006 it was a Finalist in the Banksia Foundation Eco Innovation Award. In 2007 it won the Victorian Premier's Sustainability Award for Small Business Excellence and also the United Nations Association of Australia (UNAA) World Environment Day 2007 Triple Bottom Line Award which it won for the second consecutive year in 2008. Also in 2008 it won the Monash Environmental Business Award.

Awards for Excellence and was awarded Defence Recognised Supplier Status by the Australian Defence Force for its contribution to sustainability.



The Company did not neglect product design when pursuing its CSR and in July 2008 won a prestigious Premier's Design Mark for

innovation in textile design

In 2010 SLF was a finalist in the Facilities Management Association



Sustainable Living Fabrics was also invited to participate in the prestigious inaugural World Architecture Festival in Barcelona in 2008 as just one of 25 companies invited to showcase its products. The invitation to participate was in recognition of its environmental achievements.

Commitment to the Global Compact

Sustainable Living Fabrics is committed to the Global Compact principles of building sustainable markets, combating corruption, safeguarding the environment and ensuring social inclusion.

The company recognizes this is increasingly important for the long-term value for the business and a strong focus on CSR issues drives a holistic approach to decision making from selection of raw materials down the supply chain to marketing and sales and end of life.

When the company embarked on this whole of company environmental agenda, its focus changed from producing fabrics based on a least cost approach to producing fabrics based on triple bottom line principles. This approach continues today with triple bottom line principles incorporating the principles of the UN Global Compact firmly entrenched in its corporate strategy.

The CEO has committed to the Caring for Climate Change Platform and reducing and offsetting carbon emissions is a key component of its sustainability agenda.

He has signed the CEO Water Mandate and although the company per se uses little water, preference is given to suppliers who support a clean water environmental policy and/or recycle water.

During this reporting period the CEO actively supported and was a participant in the UN Climate Change discussions in New York in September 2009 and in the Global Compact Leaders Summit in New York in June 2010.

Challenges

Sustainable Living Fabrics continues to face major challenges in successfully maintaining this program.

The first and probably the most challenging continues to be limited manpower. The demands of monitoring the supply chain and the company and publicly reporting on a regular basis threaten to impede the company's sustainability agenda.

Carbon neutral certification requires regular complicated and comprehensive reporting. Good Environmental Choice

Australia (GECA), the company's 3rd party environmental product certifier, conducts an audit every 12 to 18 months and a full supply chain review every three years. Global Compact and the CEO Water Mandate require communication of progress on a regular basis.

Reporting does ensure that the monitoring process is properly implemented but it places enormous time restraints on a small company. In 2010 this was compounded by economic pressures which caused some suppliers to close and ran the risk of some suppliers changing inputs to reduce costs. This meant additional time in sourcing new suppliers and in closer monitoring of the supply chain. It is estimated that the CEO alone spent 15% of his time in maintaining, monitoring and reporting on the integrity of the supply chain.

The second challenge is financial. As a small privately owned company, Sustainable Living Fabrics does not have outside shareholder funds to draw on. Investment in its CSR program comes out of the owners' pockets. In the reporting year investment in sustainability averaged 1% of turnover, a significant expenditure item on any balance sheet. Although for most SMEs, the cost of sustainability comes out of the owners' pockets, big business also have hard choices to make and shareholders are not always responsive to large expenditure items that do not show an immediate and transparent return. It is no wonder therefore that so many organisations continue to choose greenwash over accountable actions for their approach to sustainability and it is an issue that Sustainable Living Fabrics urges the Global Compact to continue to address.

The third challenge is greenwash. The power of greenwash in stymieing real environmental progress must be recognised. The reality is that the green market still is not a level playing field. Not only do companies with a legitimate and comprehensive sustainability agenda invest resources and funding into this but also they are then forced to compete with companies that have made no real investment in the

environment but through skilful marketing are perceived as green. Despite efforts made at government, UN and corporate levels, since 2005 it would appear that greenwash remains an unabated threat and one that requires consistent and enforceable regulatory frameworks being implemented and enforced globally.

The fourth major challenge is combating the "me" factor. The "me" factor continues to limit growth of market share for sustainable products. Sustainable Living Fabrics' market still proclaims its preference for green but is typical of the community at large. As a member of a community people want to do the right thing and will urge their governments to take environmental action but as individuals, too often it is all about "me". The Australian and State Governments promote green procuring but too often budgetary or other factors lead to green being overlooked in the final decision making. Profit, long term cost saving and sustainability can and should go hand in hand but, until stakeholders really care, the integrity of sustainable designs will continue to be compromised and the financial benefits of embracing genuine sustainability will be limited.

Sustainable Living Fabrics' has faced enormous challenges in implementing its sustainability program but this program differentiates it in the market place and lifted it from a conservative textile company to a market leader where it remains and continues to set industry benchmarks and drive change in the industry and the market. And on a broader level, the focus on sustainability within companies is growing, particularly at an SME level. It is encouraging to note that since SLF committed to the Global Compact in 2008, 75 participants have committed from Australia and 43% of these are SMEs.

The Sustainable Business Model

Investing in transparent sustainability makes economic sense

- Emily Jones Director for CSR

Sustainable Living Fabrics' Sustainable Business Model focuses on triple bottom line reporting. It transparently embraces the United Nations Global Compact philosophy that sustainability is about comprehensive corporate social responsibility to ensure that no activity of the business adversely impacts on any individual or community in terms of the ten international principles embracing not only the environment but human rights, labour standards and anti-corruption.

Corporate Governance

Quality corporate governance must have a legitimate framework. The company has chosen the framework set out in the Australian Standard for CSR – AS8003 and has a strong education program to ensure all employees are aware of the standards. It aims to fully embrace and enact the principles of the UN Global Compact and endeavours to incorporate them in every facet of the business. It has had no instances of corporate infringements.

Human Rights

(Principles 1 & 2)

The company is committed to supporting and respecting the protection of internationally proclaimed human rights and to ensuring that it is not complicit in human rights abuses. Its environmental credentials require regular valid confirmation that the company and supply chain respect the rights of others.

Labour Standards

(Principles 3, 4, 5 & 6)

The company upholds the freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the effective abolition of child labour and the elimination of discrimination in respect of employment and occupation. It regularly requires suppliers to confirm its commitment to ILO fair labour practices and has had no instances of breaches of this commitment.

Environment

(Principles 7, 8 & 9)

The company has embraced a sustainability agenda based on independent certification and is committed to undertaking initiatives to promote greater environmental responsibility and to encourage the development and diffusion of environmentally friendly technologies. During the reporting period it was recertified as 100% carbon neutral and continued to meet the requirements of its environmental labeling program GECA.

Anti- Corruption

(Principle 10)

The company abhors corruption in all its form and is committed to working against corruption including extortion and bribery.

Its policy of transparency in all business transactions is successful and no

instances of corruption have been reported during this period.

Responsibility

Good governance demands defining responsibility for the CSR program. Responsibility for governance and compliance and implementation of the program lies with the CEO. The Director of Sustainable Strategy and Marketing develops the overall CSR strategy working closely with the Director of CSR and Sales, and communicates this to stakeholders. The Director of CSR and Sales is responsible for overseeing the program and for the societal issues – human rights, philanthropic programs, anti-corruption, education and training and not only for driving the Sales Team to achieve sales targets but also for ensuring this is achieved without compromising company ethics, integrity or transparency. It is a workable structure that enables the program to be managed without overstressing limited resources.

In practice the company:

- Strives to be ethical in all it does and monitors, assesses, evaluates and reports on its activities and their environmental impact.
- Ensures its environmental credentials are externally and independently monitored, assessed, verified and audited on a regular basis.
- Financial reports are verified externally.
- Offers equal opportunity to all employees regardless of race, religion, sex or marital status.
- Provides a safe and healthy working environment for all employees.
- Pays good wages above the legal minimum wage and respects the rights and family responsibilities of employees.

- Contributes 9% of employees' gross income on a monthly basis to a retirement plan of their choice.
- Works with its suppliers to help them meet its CSR standards and respects their right to be paid fairly and promptly.
- Requires clear evidence that its suppliers pay fair wages and maintain OH&S standards to the ILO guidelines.
- Respects the rights of its customers to be supplied high quality product at a fair price with good service and a high standard of quality control.
- Educates and communicates with its market, ensuring that its achievements are visible and well publicized providing a path for influencing change in the market.
- Educates and involves employees in its corporate agenda to ensure they uphold its ethics and corporate philosophy.
- Reviews and improves its program as an integral and ongoing part of its corporate strategy.
- Develops and maintains an extensive CSR network including participating in the UN Caring for Climate platform, the UN CEO Water Mandate, the UNAA, Greenhouse Challenge, GECA, the Green Building Council of Australia (GBCA), the Commercial Textile Association (CTA) and the Australian Industry Group.
- Joined during the current year and actively participates in the Voluntary Carbon Offset Association and Green Capital.
- Participated in the first meeting of signatories for the UN Caring for Climate.

The Company has never been fined for non-compliance.

Environmental

The heart of the sustainability program is the environment because this is where activities have the most adverse impacts.

Like most companies, the administrative and warehouse operations including outward freight are an insignificant part of its environmental footprint. The main issues continue to be with the supply chain.

To keep it simple, the company has determined to use an internationally recognised environmental standard that breaks down the complexity into clear, transparent and quantifiable criteria.



The GECA Ecolabel Standard for Textiles reflects the EU Ecolabel Textile standard and extends to social issues. Assessment is by independent third

party audit at all stages of production to a clear and transparent, environmental, multi criteria standard reflecting best environmental practice.

Environmental standards are complex. It is hard to know what is involved, and so stories are built around them according to the needs of the supplier and the consumer and they are subjected to as much greenwash as any environmental claim.

However, a transparent standard addressing the main environmental loads based on the whole of product life cycle does make it simpler.

Although it is the most challenging option, this is why Sustainable Living Fabrics chose the GECA Textile Ecolabel as the standard to meet for every fabric it stocks. To minimize its environmental footprint, every fabric stocked is assessed against the publicly

available multi criteria, reflecting the significant environmental loads for textiles based on the whole product life cycle.

As a commission manufacturer, Sustainable Living Fabrics does not own the manufacturing facilities but owns the materials being processed. This gives it flexibility to choose to have its materials processed wherever it is best - for cost, quality, service and the environment. Although more suppliers have moved to a more environmental model of operation providing a wider choice for processing, these are tough economic times and during the reporting period several suppliers went out of business challenging the company to source alternative suppliers who met its strict environmental and social criteria.

To the best of its knowledge no processing operations impact on protected areas or areas of high biodiversity and the supply chain has been audited to ensure no emissions adversely impact on the environment.

Ongoing, the company seeks suppliers with a commitment to the environment and ensures its suppliers are educated on the requirements of the GECA Ecolabel Standard. It works with them to ensure they continue to comply and requires regular independent proof of environmental claims for every input into producing its fabrics. Energy sources, water usage, recycling programs and a commitment to change are taken into account as suppliers are retained or replaced by others more receptive to the company's objectives. Suppliers have changed the detergents, the chemicals and the dyestuffs they

use for the fabrics and tackled toxic emissions and water pollution.

Increasingly some suppliers are adopting environmental processes over and above what Sustainable Living Fabrics initially demanded of them and are implementing these environmental practices into standard production. In a sustainability program where the environmental cost is more important than the financial cost, these are preferred suppliers. Initially the company had less flexibility and the cost was higher to achieve its sustainability targets but as demand for

environmental textiles increases, more and more suppliers are willing and able to meet these requirements and costs are becoming more competitive.

Sustainable Living Fabrics has totally committed to a genuine sustainability program by having every product certified to carry the GECA Ecolabel and/or certified to be 100% carbon neutral.

To be sustainable there is no choice but to minimize the environmental and social impact in every facet of the business and its supply chain.

Caring for Climate

Caring for Climate is a voluntary and complementary action platform for UN Global Compact participants who seek to demonstrate leadership on the issue of climate change.

Caring for Climate provides a framework for business leaders to advance practical solutions and help shape public policy as well as public attitudes. CEOs supporting the statement are prepared to set goals, develop and expand strategies and practices, and to publicly disclose emissions as part of their existing disclosure commitment within the UN Global Compact framework, that is, the Communication on Progress (COP). Sustainable Living Fabrics signed the Caring for Climate initiative in May 2008.

In 2006 Sustainable Living Fabrics had set about reviewing the greenhouse gas impact of its complete supply chain, from raw materials to final fabric and beyond, to encompass the eventual recycling of the product at end of life, or its disposal to landfill. When it was all added up it came to almost 6000 tons of CO₂ equivalents and this was offset by planting 22000 trees through Greenfleet for the year ending June 2006. But this was self-assessing and

this is not good governance for sustainability.

In 2007 therefore, it chose to be independently audited by a third party and joined the Australian Government's Greenhouse Challenge, committing to the government to assess, monitor, reduce and report on greenhouse gas emissions. The Company produces externally audited reports annually.

In addition, every product carries carbon neutral certification under the Australian Government Greenhouse Friendly Initiative (GHF) which involves assessing, monitoring, reducing, offsetting and reporting on greenhouse gas emissions attributable to its product supply chain from raw materials to end of life. It demands extensive annual reporting which is third party verified and then audited by agents of the government. In May 2007 Sustainable Living Fabrics became the 10th Company in Australia



to have product certified carbon neutral under the GHF Program and the first and only manufacturer and wholesaler of finished goods to have 100% of its product certified carbon neutral under this program. Sustainable Living Fabrics also was certified a carbon neutral company under the program and produces an annual externally audited report on carbon emissions and offsets these emissions for ongoing certification. The company continues to be a leader in independently certified carbon neutral products setting industry benchmarks that no other textile company has attained. In the current year, carbon offsets were through the Australian Government Greenhouse Gas Abatement Program where each program has been independently verified and audited by the Government. The company chose a waste dump program where the methane, which is 21 times worse than

Leanwool® and LEAP®

LEAP® is a prime example of an innovative supply chain and was the first Australian ethical eco wool purchasing program for upholstery fabrics.



In 2005, Sustainable Living Fabrics could not fail to see that greasy wool was its biggest source of greenhouse gas emissions and carried its heaviest environmental load. It determined to source suitable ethically produced eco wool from sheep grown for meat, with

carbon dioxide, is converted to an alternative fuel source. This means its emissions are offset today, not in the future as is the case with trees.

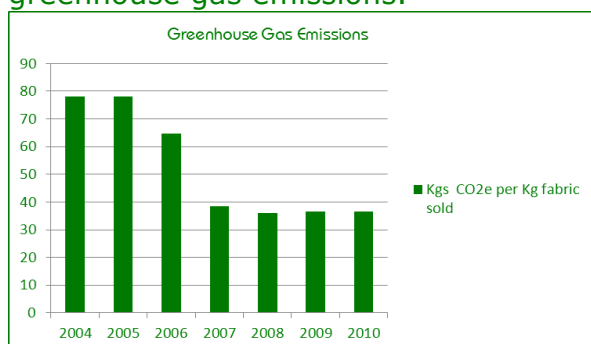
Proposed changes to government policy on national carbon offsets were foreshadowed but still not promulgated during this reporting period and will affect choice of offsets in the future. If these changes proceed, Sustainable Living Fabrics will have no choice but to use offshore offsets. This is not a situation with which it is comfortable. Using local offsets provides funding for Australian companies to invest in technology to reduce greenhouse gas emissions. From an environmental point of view, providing funding to overseas companies still works for the environment but philosophically the company believes Australia should be acting more aggressively in relation to its carbon emissions.

the eco wool as a byproduct, so that by applying internationally accepted life cycle principles the environmental impact would be shared between the meat and the eco wool according to the dollar income from each. Additional to this, it specified that the farms act to minimize use of chemicals to protect aquatic life and to practice rotational or other eco grazing methods to minimise the impact of cloven hooves on the fragile environment. The sheep were not to be mulesed and preference given to farms implementing other sustainable measures such as tree planting programs or with a certified environmental management system in place. This wool is called leanwool®.

In 2006, the Company established the LEAP® scheme to ensure a reliable supply of low pesticide leanwool®. LEAP® is a prime example of an innovative supply chain. It is one of Sustainable Living Fabrics' finest

achievements. LEAP® offers a good premium above market price and the farmer avoids the auction system with payment made when the leanwool® is tested and certified low pesticide by CSIRO. If the leanwool® fails the low pesticide test, the farm is dropped from the program until it consistently meets the standard and time and effort is then put into helping the farm solve the problem. LEAP® has had a positive economic impact on farmers providing a dedicated niche market for their wool and has driven environmental change at the farm level. The LEAP scheme has grown from 4 farms in 2006 to over 160 Australian farms. Initially, the ethical eco wool from LEAP® was exclusively for Sustainable Living Fabrics but now the program has grown sufficiently so that during this year the Company made it available to the wider market and LEAP® now provides an ongoing supply of eco wool to mills internationally. For the farmers, LEAP® rewards their environmental efforts and offers a niche market for wool that previously had an uncertain market.

LEAP® brings synergy across the whole supply chain from the farm to the customer and has contributed to a significant reduction in the company's greenhouse gas emissions.



There is no doubt that LEAP® is a highly successful program not only in driving environmental change but in

developing a reliable supply of environmentally preferable wool for the global textile market.

LEAP® was the first Australian ethical eco wool purchasing program at the farm level for upholstery fabrics and Sustainable Living Fabrics is proud that during this reporting period other upholstery companies have followed its lead and developed ethical eco wool supply chains.

On a more everyday scale the company:

- Has chosen to be powered by green energy and prefers suppliers using green energy.
- Reuses all plastic wrapping from fabric delivered to the warehouse.
- When it has to buy, it buys only recycled plastic.
- Reclaims cardboard tubes from customer for storing and shipping fabric
- Uses recycled cardboard and paper and recycles/reuses these.
- Has installed low ballast lights, turns lights off when not in use and turns off computers and other equipment at the switch.
- Fans are used instead of air-conditioning which is only turned on when the inside temperature goes above 28 degrees and the natural gas heating is used only when the inside temperature drops below 17 degrees.

The cost of the carbon neutral program comes straight off the bottom line and the cost of offsets is a driver to further reduce carbon emissions. However, with such large reductions in emissions already achieved, further reductions are challenging and the company is proud that it continues to maintain reduced emission levels.

CEO Water Mandate

The CEO Water Mandate was launched in July 2007 as a private-public initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.

The CEO Water Mandate recognizes that the business sector, through the production of goods and services, impacts on water resources – both directly and through supply chains. In April 2008, the CEO of Sustainable Living Fabrics, Bill Jones, endorsed the CEO Water Mandate recognizing that with more than one billion people lacking access to clean water, every company, large or small, has a role to play in advancing practical water management.

Sustainable Living Fabrics is a commission manufacturer and wholesaler of textiles. It recognizes that clean water is a valuable and scarce resource and its sustainability agenda specifically addresses water quality.

Its direct operations contribute less than .01% of its water use but it has identified that one area where it can continue to make a difference is in water use in its offices and by employees in their homes. Company premises are rented and after extensive lobbying of the landlord, dual flush toilets were installed. Engaging employees with the company's environmental agenda has encouraged them to minimise their water use.

The KISS Water Saving Competition for employees, family and colleagues took the sustainability agenda into their homes. It has a prize pool of \$1000 and

in the year ending 31 March 2010 the number of participating employees doubled and average usage per person dropped by a further 26% over the previous period.

The company has worked hard to:

- Identify areas of water use in the supply chain and its own offices.
- Identify areas where water use can be reduced.
- Identify areas where chemical use can be reduced.
- Prohibit the use of chemicals identified as harmful to humans or to aquatic life.
- Achieve independent, transparent certification of the supply chain to ensure chemicals harmful to human or aquatic life do not contaminate wastewater.
- Educate the supply chain to ensure it meets the company's requirements.
- Educate employees to ensure responsible water use.
- Implement a transparent reporting system for water usage. Implement an annual Water Saving Competition to take water conservation into the community and employees homes.
- Encourage the landlord to fit dual flush toilets in offices.
- Educate clients and the broader community on the benefits of independent environmental certification as a tool to achieve real environmental progress.

Supply Chain and Watershed Management

Although Sustainable Living Fabrics is small it believes that every drop counts and the actions it takes can have meaningful results.

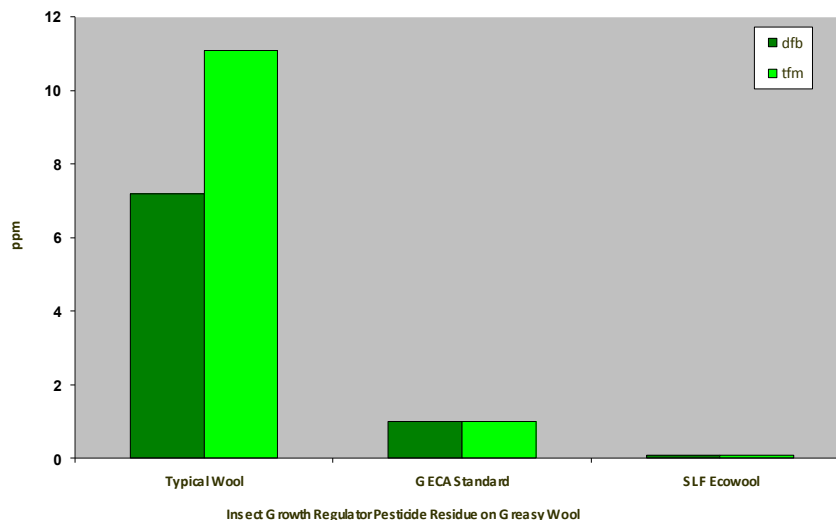
The company is committed to reducing water consumption and ensuring its operations do not adversely impact on any community or individual. It recognizes that clean water is a valuable and scarce resource and its sustainability agenda specifically addresses water quality. Use of chemicals that adversely affect water quality or aquatic life is prohibited and the supply chain is regularly third party audited to ensure that there are no breaches of this policy.

In 2005, acknowledging that every company has a responsibility to commit to a comprehensive and meaningful water management program, it introduced supply chain and water management changes that led to a reduction in water use of 62% over the base year 2004. It continues to actively contribute to meaningful water management through its transparent sustainability agenda and its engagement with the supply chain, employees and the community. In the reporting period, water use increased 46% over the previous year reflecting a corresponding increase in metres of

wool fabrics sold over polyester. This still represents a decrease of 49% over the base year 2004.

The Green Living Collection has over 400 upholstery fabrics and every one carries the Good Environmental Choice Australia (GECA) Ecolabel or equivalent. The GECA Ecolabel Standard for Textiles prohibits the use of chemicals and dyestuffs known to adversely affect humans or aquatic life.

The company has engaged with its supply chain to ensure it continually adheres to the GECA standard in production of its fabrics. GECA audits the supply chain. For example, all ethical eco wool used in the production of its fabrics is from the company's innovative LEAP® Program described above, which requires all eco wool to meet the EU Ecolabel Standard for Textiles for 32 pesticides. The chart below compares pesticide content for two commonly used pesticides detrimental to aquatic life (dfb or diflubenzuron and tfm or triflumuron) in typical wool against the GECA standard and eco wool from the LEAP® Program.



Supply Chain and Watershed Management contd

Where practical, preference is given to suppliers that recycle water and it sources raw materials to ensure water consumption is effectively managed.

The changes that were required to ensure that every fabric stocked carried



the GECA Ecolabel were significant and further reductions in its environmental impact relating to water are limited by technology and available

environmentally preferable inputs.

These limitations are beyond the control of the company and make it difficult to continue to achieve significant further reductions in its environmental impacts.

In 2004 the impact of water usage by the supply chain was identified and changes initiated but not fully implemented until 2006. The water savings are significant and are the result of the LEAP

programme discussed above and complemented by savings achieved by using a scourer that recycles 80% of its water. The preferred dye house in previous years that recycled 40% of its water closed but the company is now working with a dye house that has commenced implementing plans to recycle 80% of water by 2013.

For comparison purposes, 2004 FY is the base year as it is the year prior to the beginning of changes noted above. The target was set at 40% by 2006 to be maintained into the future. The target has been exceeded each year. The fluctuations post 2006 reflect the ratio of wool to polyester fabrics sold. As more wool fabrics are sold, water use will increase.

Sustainable Living Fabrics recognizes that by taking such a giant step regular and significant reductions beyond this will be difficult to achieve but it is committed to continue to set water targets and monitor and report on water use.

	2004 (base)	2005	2006	2007	2008	2009	2010
Water saving/metre of fabric over base year 2004	0%	3%	50.7%	49.2%	45.8%	63.9%	49%

Society

Societal issues underpin Sustainable Living Fabrics' sustainability agenda, ensuring that the company and its product supply chain are not adversely impacting on society – on any community or any individual.

To be successful, CSR philosophies must be embedded in the Company culture and be functional and legitimate.

In achieving GECA certification for all its stocked fabrics the company has to prove that labour principles to ILO standards were upheld all the way down the supply chain in Australia and overseas. Site visits ensure compliance.

With its Australian suppliers, fair wages and working conditions are not an issue but overseas, particularly in countries not subscribing to ILO principles, it is essential to find and then monitor suppliers who in addition to meeting the company's internal environmental standards meet ILO standards for employment, even when this means being far above the local legal requirements.

The chosen suppliers genuinely care about the environment and also value their employees and respect their rights. Increasingly such companies are becoming more common.

Sustainable Living Fabrics respects the work-life balance of its employees. The company appreciates that employees all have families and external activities that they are involved in and a healthy work-life balance leads to a happier, more productive and thus more valuable employee. Leave is given when needed and requested and it is recognized that sometimes there are

issues beyond employees' control when they need special leave. Parents can go to school events involving their children, they can leave early if their child minding arrangements fall through or they can negotiate to work shorter hours to enable them to be there for their children before and after school. If they need time to visit their bank manager or their accountant, to buy a house or wait for the plumber, they know it will be given. Care of dependent relatives, particularly aging parents and preschool age children, places a stress on some employees and they can and do negotiate for shorter days or certain days off. It is a reflection of the level of trust and engagement throughout the organization.

A number of initiatives that Sustainable Living Fabrics has taken are more societal than directly related to the formal environmental program.

Each year the company joins Earth Hour and encourages employees also to participate. Turning off lights for one hour at the appointed time creates an awareness of how often they use more power than they need and also how every little action can make a difference. The 30,000 trees, planted through the Murray Darling Rescue Program will continue to have a positive impact on water management and carbon emissions for many years to come. It is a real investment for society in the future.

The Sustainable Business Model

KISS - Keep it Simple Sustainably



The KISS - Keep it Simple Sustainably - program was established in early 2007. It now has a prize pool of \$3500 and aims to encourage staff to take company principles and extend them into their personal lives.

KISS, Water Saving Competition is designed to encourage employees to save water at home. It recognises that water is a precious resource especially in Australia. During the reporting period, staff reduced their water consumption by 26% and the number of participating employees doubled. It is a clear demonstration of using an embedded CSR culture to drive change beyond the Company.

In 2008 the KISS program was extended it to **KISS Turn it Off Now** for Electricity and KISS Give Back 40, a volunteering program where the company gives employees up to 40 hours paid leave a year for volunteering.

KISS Turn it OFF Now has not had the same significant results as KISS Water Saving. As electricity usage is more direct and easier to manage it is assumed employees have been taking measures to reduce their electricity use prior to the introduction of KISS. Nevertheless it has achieved its purpose in engaging employees in environmental initiatives beyond the company.

Transport is another area where the company's CSR philosophy endeavours to change employees' way of thinking to reduce emissions. It reimburses fares of staff that travel to work by public transport. The employee uptake of this initiative has been disappointing to date with only one employee regularly using public transport. This possibly reflects the fact that most employees live in areas not serviced by a direct rail line or bus service to their work site and several have family commitments to meet after work.

KISS Give Back 40 is an exciting volunteer initiative in which a number of employees have engaged. The program offers employees up to 40 hours fully paid leave each year to do volunteer work for a charitable or environmental program that would be unable to exist effectively without volunteer workers.

Programs chosen have included B4C, Globalteer Cambodia Kids Project, North Head Quarantine Station and Turtle Tagging in Broome.



Socially Responsible Practices – Human Rights

Sustainable Living Fabrics is opposed at all levels to the use of bribery and corruption to facilitate profit making by companies. This can and does occur at many levels in every industry. Even green washing is a subtle form of fraud. It is unacceptable and removes any chance of a level playing field in the market. The temptation is always there and opportunities invariably present themselves from external sources.

However the Sustainable Living Fabrics ethos empowers all staff to do the right thing. It provides its employees with certified facts relating to its products, remunerates its employees well, listens to their needs and takes appropriate action. All employees in contact with the market are trained to recognise and avoid bribery and corruption and there are no reported incidents of corrupt practices.

The company has never had legal action taken against it for breaches of human rights, anti competitive behaviour or monopoly practices nor has it been fined or sanctioned for non-compliance with laws and regulations.

Sustainable Living Fabrics supports and actively participates in the UN Global Compact including the CEO Water Mandate and the Caring for Climate initiative, the Global Compact Australia Network, United Nations Association of Australia, Green Building Council of Australia, Green Capital, the Voluntary Carbon Market Association and others. Representatives of the company attended the first meeting of signatories to Caring For Climate in Geneva in October 2008.

The company regularly communicates its position in public speaking engagements and presentations to clients and lobbies appropriate groups on environmental and human rights issues.

It also supports the World Vision Don't Trade Lives Campaign recognizing that child slavery is widespread and unacceptable in any form.



The company does not donate to political parties

Overall

"The Sustainable Living Fabrics CSR agenda represents the corporate leadership that is essential for the transformation to sustainable markets and the achievement of societal goals"

Kay Jones Director Sustainable Strategy and Marketing

Over the reporting period Sustainable Living Fabrics has initiated and consolidated environmental, social and corporate governance programs and incentives that reflect its commitment to the principles of the Global Compact, stakeholders and the wider social community. Its sustainability and CSR strategy has created a level of trust in it as a company and in its products. An extensive education campaign involving over 5000 companies has enabled it to share its philosophies and achievements and also to give these companies the knowledge to make an informed choice and the power to join in the journey towards true sustainability and social responsibility.

The company's education program deals honestly and fairly with many issues that its customers and suppliers do not have time to research.

Its CSR claims are transparent and its achievements offer a solution that provides security and comfort in the fact that procurement decisions are based on the truth.

The Sustainable Living Fabrics' strategy constantly pushes CSR boundaries to achieve real change. It has proved a socially responsible, competitive pathway to success in a very tough market.

Performance Indicators

Economic Performance

This relates only to the Company and not to the supply chain.

As a private Company, for commercial reasons it has chosen not to report

absolute levels of revenue but to provide an indicator of its revenue as less than \$10M and report the parameters as percentage values.

Component	2010
Revenues	<\$10M
Operating Costs	88.2% of revenue
Employee Wages and Benefits	15.1% of revenue
Payments to Providers of Capital	6.3% of revenue
Payments to government	6.4% of revenue
Grants from government	3.4% of revenue
Spending on local suppliers	90.1% of revenue
Community Investments	0.2% of revenue
Economic value retained	12.2% of revenue

Materials

This section covers the whole supply chain from creation of raw materials through to disposal at end of life except where it is stated otherwise.

This reflects the company's total commitment to a sustainable future.

The table below indicates materials used of which 14.3% are recycled inputs.

Materials Used

Component	Tonnes
Wool	54.1
Polyester	25.0
Nylon	0.7
Processing oils	1
Dyestuffs	1.2
Packaging	14.4

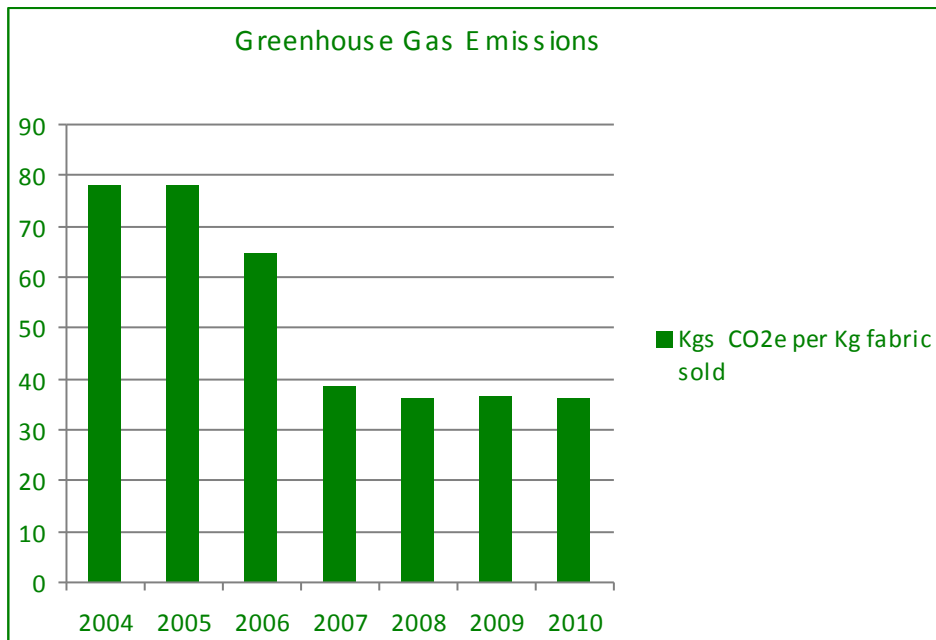
Energy

Sustainable Living Fabrics is a small organisation with its main energy load indirect energy and most relating to the supply chain. To simplify this performance indicator, the Company has chosen to use CO₂^e emissions attributed to the company and the product supply chain.

These figures have been extracted from the annual externally audited report for the Company's carbon neutral program and are expressed as kilograms of CO₂^e per kilogram of product sold.

For the reporting period CO₂^e per kilogram of product sold was 36.48 kilograms.

The company has initiated energy saving measures within the company. Low ballast lighting has been installed in the warehouse, fans are used in preference to air-conditioning, renewable energy is used for heating when the temperature drops below 18°C, and lights and appliances including computers are switched off when not in use.



Performance Indicators

Water

Water is discussed in detail under the Section CEO Water Mandate.

The source of water in the production of the wool is a mixture of surface water, ground water and rainwater varying according to weather conditions. In drought conditions rainwater is scarce and more ground water is used. Water used in processing comes from the municipal water supply. 46% of water used in processing was recycled.

All water discharged in the supply chain was treated and discharged into the local sewerage systems. The quality of the discharged water is constantly monitored to ensure it complies with environmental regulations and the GECA criteria.

Greenhouse Gas Emissions

The Australian Government has independently audited the Company and its supply chain for greenhouse gas emissions under the Greenhouse Friendly Certification Initiative. Our calculations meet Greenhouse Friendly (GHF) requirements. The calculations cover creation of the wool and polyester, direct and indirect energy sources, transport of materials between sites and waste and emissions. Emissions included 70.2 tonnes of CO₂^e emissions for the Company's own travel. Total greenhouse gas emissions represent 36.48 kgs per kg of fabric sold compared with 77.5kgs in the base year 2004. The most significant greenhouse gas in the supply chain is

the methane from the sheep and this contributed to 41.2 of all CO₂^e emissions in the reporting period.

Waste

Using industry norms for processing, 17.1 tonnes of waste went to composting, 2.4 tonnes were recycled and 2.5 tonnes went to landfill.

The Company had no hazardous waste during the reporting period and no significant chemical spills.

9.5% of packaging delivered to customers is reclaimed for reuse.

Waste fabric is used for sampling and sampling recycled where appropriate.

Design for the Environment

GECA certification ensures environmental impacts are minimized and these are reported on the EPD available at www.geca.org.au

Fabrics are designed so that they do not require back coating and can be readily reused or recycled at end of life. No current fabrics in the market at the time of reporting have reached end of life.

The company has an accessible Recycling Program.

Transport

Transport of product within the supply chain and to the customer created 68.1 tonnes of CO₂^e emissions from fossil based fuels.

Social Performance

Labour Practices

This section is restricted to the Company.

Employees have individual written contracts, which comprehensively specify terms and conditions of employment such as period of notice and leave entitlements in line with legal requirements. All employees in the warehouse have the opportunity to meet with management weekly to discuss OH &S issues and during the reporting period the company has had no injury or absenteeism other than for normal background illnesses in the community. The Company has no formal agreements with any Trade Union.

No program exists to equip employees for career ending but it regularly reviews the performance of all employees to ensure they are equipped to develop within the Company.

The Directors communicate with employees on a daily basis.

Equal opportunity is embedded in the Company culture and male and females are given equal opportunities and are paid on an equal basis according to the work they do.

Human Rights

This covers the Company and its supply chain. Human rights are an integral part of company culture. The GECA Ecolabel covers human rights issues and all suppliers have been audited for fair wages, bonded labour, slave

labour, child labour, and working conditions to ILO guidelines. Partly due to this screening process for suppliers and partly because of our own insistence that employees are treated fairly, the company has had no known instances of discrimination based on sex, religion or race and no evidence of restrictions on freedom of association.

Society

Only the Company is reported on.

Product Responsibility

The report is confined to the Company and does not cover the supply chain.

Every product is certified fit for purpose and certified low VOC emitting. Fabrics are certified to meet industry fire standards. The company has not been notified of any breaches of health and safety requirements or labeling laws. It has never been fined for non-compliance to laws and regulations concerning the use of its fabrics.

Every piece of fabric dispatched to the customer is clearly labeled with country of origin, fabric name defining fibre content, and after care instructions detailing how to care for the fabric in use.

Sustainable Living Fabrics respects the confidentiality of customer details and has not received any complaints from customers, directly or indirectly, reflecting any breach of this confidentiality.

Contact Details:

Further information regarding this report can be obtained on our website <http://www.greenliving.com.au> or by emailing environment@greenliving.com.au